

13 APR 1961

MEMORANDUM FOR: Mr. Eugene L. Pahl

SUBJECT : Report of Review of Selected Activities of the
Central Intelligence Agency -- January, 1961

*F. W. Pahl
4-24
C. Pahl
w/CND*

1. After completing a review of your proposed "Report of Review of Selected Activities of the Central Intelligence Agency," I still feel, as stated in paragraph 2 of Mr. Lloyd's 8 February 1961 memorandum, that the draft report fails to acknowledge the effort made and the actions taken to place your unit in a position to do a comprehensive audit of the overt activities of the Agency. Furthermore, the second paragraph of the findings and conclusions section of your report leads me to believe that your understanding of the October, 1959, agreement to expand the GAO audit of CIA was not in accordance with our intent in reaching that agreement, nor with our understanding of the terms of the agreement. A review of the correspondence and minutes of the various meetings between representatives of GAO and CIA reflect the fact that it was never intended that a comprehensive audit be performed in the Plans component and in those activities of the Support component which are in direct support of the Plans component. The intent, as expressed in the Director's 16 October 1959 letter to the Comptroller General and as reiterated by me in my various meetings with Mr. Samuelson, was that GAO would attempt to expand its audit of the overt activities conducted by CIA, i.e., the Intelligence component and those activities of the Support component which are not in direct support of the Plans component.

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2. My comments on the material presented in your draft report are as follows:

- a. In the second paragraph on page 1, you state: "Because of these limitations, substantial segments of the review were limited to discussions with CIA officials responsible for the direction of the activities selected for review, and there was complete denial of access for discussion in the area of covert intelligence operations of the Plans Component."

Inasmuch as the basic agreement specified that there would be no access into the covert intelligence activities of the Agency, I feel the last phrase of this sentence should be changed to read: "..., and in accordance with prior agreement, there was complete denial of access for discussion in the area of covert intelligence operations of the Plans Component."

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changed to read like the CIA act of 1949 or the provisions of the CIA Act of 1949

- b. At the bottom of page 7, you state: "The vouchered funds are those funds that can be expended in accordance with the provisions of law and regulations normally applicable to the expenditure of Government funds, and, in the Director's opinion, the vouchers and related documents can generally be made available for audit by the General Accounting Office."

This sentence should read: "The vouchered funds are those funds that can be expended in accordance with the authorities contained in the CIA Act of 1949 or the provisions of law and regulations normally applicable to the expenditure of Government funds, and in the Director's opinion, the vouchers and related documents can generally be made available for audit by the General Accounting Office."

- c. In the last paragraph on page 8, you state: "Under this authority, CIA also reviews all written material, including this report, that is prepared in the course of our audit work for dissemination to other than CIA ~~or General Accounting Office~~ officials."

changed. delete 4-24

This sentence should read: "Under this authority, CIA reviews all written material, including this report, that is prepared in the course of our audit work for dissemination to other than CIA officials."

- d. In the middle of page 9, you state: "The site audit of certain CIA expenditures was essentially limited to a review of fiscal officers' accounts, including an examination of certain related vouchers and other documents evidencing the expenditure of appropriated funds to determine whether the expenditures were made in accordance with laws and regulations generally applicable to Government expenditures."

changed delete 4-24 the provisions of the CIA Act of 1949 or with the

This sentence should read: "The site audit of certain CIA expenditures was essentially limited to a review of fiscal officers' accounts, including an examination of certain related vouchers and other documents evidencing the expenditure of appropriated funds to determine whether the expenditures were made in accordance with the authorities contained in the CIA Act of 1949 or with laws and regulations generally applicable to Government expenditures."

- e. At the top of page 12, you state: "CIA expenditures are made where possible under the general authorities of the act without invoking the special authority, and, as a

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result, certain non-sensitive activities in support of confidential operations are funded under the general authorities of the act."

This sentence should read: "CIA expenditures are made where possible under the general authorities of the act without invoking the special authority, and, as a result, certain non-sensitive activities in support of confidential operations are funded under the general authorities of the act or general authorities available to Government agencies by various Statutes."

- f. In the first paragraph on page 13, you state: "We have had no access whatsoever to the activities of the Plans Component of CIA." *The limitations [redacted] review are summarized on pages 11 and 12 of this report.* For the reasons previously stated, this sentence should read: "In accordance with prior agreement, we have had no access whatsoever to the activities of the Plans Component of CIA."

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- g. In the last paragraph on page 15, you state: "The Chief, Budget Division, advised us that budget estimates are prepared by the Agency for submission to and review by the Congress and the Bureau of the Budget and that these estimates disclose in summary form all of the data normally submitted by Government agencies to the Congress and to the Bureau of the Budget, but do not disclose the details of CIA requirements."

- || I do not understand the basis for the last phrase of this sentence, since the Agency submits its budget estimates in the same detail as any other Government agency. For your information, however, cleared personnel from the Bureau of the Budget hold hearings throughout the Agency and do review the detailed requirements of each office.

- h. In the middle of page 16, you state: "The documents to which we were given access were on an all funds basis and do not disclose the details of Plans Component activities or other confidential or vouchered fund activities."

Again, I must refer to the original agreement that GAO would not receive information regarding the covert activities of the Agency, i.e., the Plans component.

- i. In the middle of page 17, you state: "CIA funds allotted to the type of activities also carried out in other Government operations are designated as vouchered funds and the responsibility for the financial management of these funds is assigned to the Fiscal Division."

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This sentence should read: "CIA funds allotted to nonsensitive ~~type~~ activities are designated as vouchered funds, and the responsibility for the financial management of these funds is assigned to the Fiscal Division."

- j. In the last paragraph on page 21, you state: "Officials of the Support Component advised us that the General Accounting Office would be permitted audit access to the records, files, and documents maintained in the Payroll Branch of the Fiscal Division, but would be permitted only limited access to the personnel files of ~~any of the~~ personnel included on the vouchered funds payroll."

You were advised by telephone on 30 September 1960 that you would be permitted complete access to the personnel folders of all employees performing purely overt duties.

- k. In the middle of page 24, you state: "Vouchered funds are those funds that can be expended in accordance with provisions of law and regulation normally applicable to the expenditure of Government funds and, in the opinion of the Director of Central Intelligence, the vouchers and related documents generally can be made available for audit by the General Accounting Office."

This sentence should read: "Vouchered funds are those funds that can be expended in accordance with provisions of the CIA Act of 1949 or of law and regulation normally applicable to the expenditure of Government funds and, in the opinion of the Director of Central Intelligence, the vouchers and related documents generally can be made available for audit by the General Accounting Office."

1. In the first paragraph on page 28, you state: "During the review, the Special Assistant to the Deputy Director (Support) advised us that documents supporting vouchered funds transactions which are charged to confidential funds allotments could no longer be made available for any General Accounting Office audit, whether on a comprehensive or voucher basis. Prior to the initiation of this review, the records, vouchers, and other documents supporting all vouchered funds expenditures were made available to voucher-type site audit by the General Accounting Office. We did not obtain a full explanation of why the General Accounting Office would no longer be permitted voucher audit access to these documents."

The Special Assistant to the Deputy Director (Support) advised you that these transactions were of the type which

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This was known
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F.V.
CND now says whenever
we were refused access to
these docs, GAO was trying
to expand audit & it was
always for CIA intent to preclude
from comprehensive audit
which would reach into
requirements & use aspects
of transactions but the documents
intended to withhold them
docs. from a limited
transaction audit
date 4-26-61

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insert nothing on
P. 25, delete P. 1, &
insert new
P. 26, P. 27, P. 28
date 4-24-61

the Director referred to in his 16 October 1959 letter to the Comptroller General wherein he stated: "This policy has been exercised to such a degree that certain activities, not in themselves sensitive but conducted solely in support of highly confidential operations, are funded under general authorities without invoking my special authority to make final accounting therefor. A comprehensive audit of the sort now conducted by the GAO in other agencies, if applied to our so-called vouchered expenditures, would necessarily reach into the confidential operations which they support and which are protected by my special authority under Section 8 of the Act. In these instances, therefore, the comprehensive audit would have to be limited so as to remain outside the area of sensitive security operations." Since the purpose of your review was to determine whether a comprehensive audit of Agency activity was feasible, the answer provided above is considered appropriate. However, in this particular portion of your report, you are discussing the feasibility of a voucher-type audit. If this is intended and you have in mind limiting your audit of these transactions to a voucher-type audit, we would have no objection to making them available for your review.

- m. In the last paragraph of page 28, you state: "The General Accounting Office, in our opinion, can make limited reviews and evaluations of the centralized activities of the Printing Services Division."

The only limitation placed on your review in the Printing Services Division is in the material being printed. Since the documents and material being printed by PSD are under the control of other offices in the Agency, we specified that if you wanted to read the printed material, you would have to obtain the approval of the controlling office. Except for this limitation, you have complete access to the Printing Services Division.

- n. In the middle of page 29, you state: "Headquarters vouchered funds procurement actions were limited to certain research and development contracts and to contracts for the procurement of administrative, housekeeping, and janitorial supplies and equipment in fiscal year 1960. All other 1960 procurement actions were confidential funds transactions or vouchered funds transactions chargeable to confidential allotments."

This is a factual statement as far as it goes, but it fails to recognize or acknowledge that adjustments in procedures

F. H. Poll
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True! but the
limit we have in
mind is that we
would not be permitted
to trace out cost
distributions (p 32.)

No change

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*The purpose
is new to this*

were made effective 1 July 1960 for the express purpose of making a larger portion of procurement activity available for your review. At the top of page 29, you state: "However, certain changes in the policies, practices, and procedures affecting the activities of these divisions are presently being implemented and are expected to increase the General Accounting Office access to these activities. The extent of this increased access, however, cannot be determined at this time." Although this statement alludes to the procedural changes to which I refer, it is stated in such general terms as to render it almost meaningless. Since this change in procedure was effective on 1 July 1960 and your report is dated in January, 1961, it would appear to me that this subject should be covered in more specific terms. I assume that when you state: "All other 1960 procurement actions were confidential funds transactions, ..." you had in mind fiscal year 1960 rather than simply 1960.

- o. In the last sentence on page 30, you state: "All other headquarters supply actions in 1960 were confidential funds transactions."

Here again, you fail to recognize or acknowledge the 1 July 1960 procedural adjustments which will permit the expansion of your review of the procurement and supply activities. I also assume that you mean "fiscal year 1960" rather than "1960" in this statement.

- p. In the middle of page 32, you state: "In the Support Component, an Audit Staff is responsible for conducting internal audits of CIA financial activities, and a Management Staff is responsible for conducting management reviews."

This sentence should read: "In the Support Component an Audit Staff is responsible for conducting internal audits of CIA financial and property activities, and a Management Staff is responsible for conducting management reviews."

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3. My comments regarding your draft reports of review of the Foreign Documents Division, the Office of Central Reference, and the Office of Basic Intelligence are included in separate memoranda in order to conform with the pattern set forth in the first paragraph of page 37.

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4. Since my comments and replies regarding your various reports of review will undoubtedly necessitate changes in your draft letter to the Honorable Paul J. Kilday, I will await a resubmission of that letter before commenting on its contents.

5. You have also requested to be advised of the proper security classification to be applied to the report and any limitations to be placed on the distribution of the report to the interested parties. The report should be classified CONFIDENTIAL, and I have no objection to the distribution plan outlined in the third paragraph of your 22 March 1961 letter to me.

6. I will be happy to discuss my comments and positions further with you and Mr. Samuelson if you so desire.

L. K. White
Deputy Director
(Support)

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